



---

SMALL STATES IN TRANSITION – FROM VULNERABILITY TO COMPETITIVENESS

## **ST. VINCENT & THE GRENADINES**

THE NEED FOR A UNIQUE STRATEGIC FRAMEWORK – THE  
NATIONAL RESPONSE

Port of Spain, Trinidad & Tobago – January 2004

## Background Information:

This paper is presented by the St. Vincent and the Grenadines delegation to the Executive Forum on National Export Strategies – “Small States in Transition: From Vulnerability to Competitiveness” held at the Trinidad Hilton, Port of Spain, Trinidad, during the period January 18<sup>th</sup> to 21<sup>st</sup>, 2004.

The paper is prepared and presented by Sonny Williams, Martin LaBorde, and Julian Ferdinand after consultation with senior representatives of the Ministry of Foreign Affairs, Commerce and Trade.

## Introduction:

Small states, like those of the Eastern Caribbean, are extremely vulnerable to the events that are taking place on the world market as they seek to sustain and enhance their competitive position. Michael Porter (1988) identifies low cost and differentiation as the two significant variables in creating and sustaining competitive advantage (p. 66). However, these two significant variables are especially elusive to many of the small states due to the absence of critical mass on their domestic markets, the relative high cost of doing business, remoteness from major centers of economic activity, and frequent encounters with violent hurricanes and other destructive tropical storms that can, and often do, inflict heavy damage, especially in rural areas.

Recent research by Kangasharju (2000), Rahman (2001), Watson (2001), and Blake (2002) highlight the significant contribution small and medium sized enterprises (SMEs) make to national economies and assert that they subsequently have a positive impact on the economic activities in their respective territories.

In light of the significant contribution the SMEs make to the economies in which they operate, it is understandable that their respective governments should seek to provide some degree of support being cognizant of the constraints under which many of them operate.

This presentation highlights several of the challenges our small states face. Special emphasis is given to the areas of vulnerability that work against the creation and sustaining of SMEs that operate within these national economies.

A greater economic challenge to St. Vincent and the Grenadines is the danger of marginalization in the new global economy. The new global economy is marked by falling political and other barriers to trade in goods and services, prompted by wider information and technology flows among outward-oriented countries, and importantly spurred by foreign direct investment and global production sharing.

## Relevant Issues:

Shishir Priyadarshi of the Development Division of the World Trade Organisation, addressing the meeting on Special and Differential Treatment at Geneva Week on November 11, 2003, highlighted the fact that although “different and more favourable treatment” in favour of developing countries was introduced as early as the first GATT Review Session in 1954-55, no clear definition of developing countries was adopted.” He

proceeded to highlight that even though the attempts at providing a suitable definition continues there are still areas of the definition that remain unclear. Be that as it may, many of the small island states of the Caribbean consider themselves to be especially vulnerable due to their relative smallness when grouped in the “developing nation” category. Many are considered “micro states” even when categorized among the small island groupings.

### **Economic Vulnerability**

Small island states are particularly vulnerable due to the absence of critical mass and the subsequent reliance on export to sustain their economies. Many of these exports have been dependent on preferential trade arrangements (Boxill and Samuel, 1997). This has been especially so for our agricultural exports (sugar, bananas, rice).

Like many former colonies, St. Vincent and the Grenadines is accustomed to receiving trade preferences – extended by the major industrial countries (principally under the EU Lomé Convention and US Caribbean Basin Initiative), and extended by Caribbean countries to one another under the regional integration and economic cooperation arrangements that crisscross the Caribbean region. These preference schemes provide ECS exports with greater competitiveness in Caribbean and European markets, through reduced-duty or duty-free access to these markets. ECS producers whose exports are covered by these arrangements clearly gain. However, commodity and quantitative limitations, rules of origin, and non-tariff barriers widely apply to these preferences, diluting their potential benefits. However, these trade preferences contribute to greater reliance on traditional exports, and, ironically, subject St. Vincent and the Grenadines to unwanted vulnerabilities from the erosion of their trade preferences by multilateral trade liberalization under the GATT/WTO, and unilateral trade liberalization in emerging market countries worldwide.

Also, from an economic welfare perspective, trade preferences for exports from small trading economies such as St. Vincent and the Grenadines pose a danger of expanding production to socially inefficient levels, that is, levels utilizing domestic resources at costs exceeding their international exchange value, inhibiting possible opportunities for greater diversification of the economy, and, ultimately, exposing the economy to still greater requirements for structural adjustment in response to globalization and continued unilateral and multilateral trade liberalization in other parts of the world.<sup>1</sup>

The situation is further complicated by the fact that most of our agricultural exports have traditionally been in the form of primary products rather than the more lucrative value-added items. Extensive research abounds to identify the folly of our continuation to engage in this practice of not diversifying to embrace the production of these more lucrative value-added products.

Its small size rules out production of many modern goods and conveniences that are only produced competitively on a large-scale. Accordingly, St. Vincent and the Grenadines must rely on imports of a wide variety of consumer and producer goods, with the result that its trade (exports plus imports)-to-output ratios are frequently very high. Also under such circumstances, export earnings are of considerable importance, along with foreign exchange market policies that may either help or

---

<sup>1</sup> On national welfare aspects of bilateral trade preferences, see for instance Wang and Winters (1998). On similar aspects of regional integration arrangements, see Bhagwati and Panagariya (1996), DeRosa (1998), and Krueger (1999).

hinder adjustment of international payments and receipts, under inevitably changing internal and external economic conditions.

More broadly, the Windward and Leeward islands are often alleged to be subject to significant economic vulnerabilities related to their small size, remoteness, and susceptibility to natural disasters. The Commonwealth Secretariat, building on earlier work by Briguglio (1995), has developed a formal index to measure the economic vulnerability of small island economies and other developing countries with especially small populations.<sup>2</sup> The Secretariat's composite vulnerability index combines separate variables reflecting external economic forces and environmental hazards that generate vulnerability into a single indicator, using weights given by an econometric model relating output variability (volatility of per capita GDP growth) to specific economic and environmental causes. Empirical results found by this methodology indicate that smaller states, including specifically St. Vincent and the Grenadines, are significantly more vulnerable to external economic and environmental hazards than larger states.

The absence of adequate transfer of technology over the years has also been identified as a hindrance to the development of several areas in the productive sector. This has been identified as contributing to the retardation of our progress in the manufacturing and service sectors. Additionally, as the markets become increasingly liberalized small states observe how vulnerable they have become as a result of the absence of adequate personnel and technology to keep them competitive. This situation impacts on every aspect of the firms' operations; from procurement of raw materials, through the conversion processes, and on through to their marketing and distribution channels.

The relative high cost of freight continues to magnify the vulnerability of small states that cannot engage in just-in-time ordering and delivery arrangements and conversely often have to carry relatively high inventory. The cost implications are compounded several times over as they have to invest in infrastructure to store the raw material, face high finance charges to carry the said inventory, and also have to be saddled by the relatively high freight rates charged to transport the said raw materials. Again, because of the relative small size of the orders leaving the small island states, the freight schedules have often been inadequate for sustaining SMEs on some markets. This, coupled with the relatively high freight rates, expose the vulnerability of many of their products that then become uncompetitive.

The relatively high cost of energy in most of the small island states also becomes a major contributor to the vulnerability of the small states as they become increasingly exposed to open market situations. Table 1.1 below highlights the significant variable in the cost of electricity when compared to the larger Caribbean territory of Trinidad and Tobago.

---

<sup>2</sup> See Commonwealth Secretariat (1999) and Atkins et al. (2000).

**Table: 1.1 Average Price of Electricity by Category of Customer, 2000  
EC\$ per Kw/h**

	ANU	BDS	DCA	GDA	SLU	SVD	T&T
<b>Residential</b>	0.76	0.38	0.68	0.65	0.54	0.68	NA
<b>Commercial</b>	0.69	0.53	0.77	0.67	0.69	0.74	0.12
<b>Industrial</b>	0.79	0.51	0.70	0.57	0.70	0.62	0.15

*Source: Own calculations based on data from CARILEC – 2000 Electricity Prices Survey*

Legend:

ANU, Antigua; BDS, Barbados; DCA, Dominica; GDA, Grenada; SVD, St. Vincent and the Grenadines; T&T, Trinidad and Tobago; NA, Not Available

#### **SVG's Approach to the Above Issues:**

St. Vincent and the Grenadines is in the embryonic stage of developing a national approach/strategy to deal with the above vulnerabilities. The Ministry of Foreign Affairs and Trade and the St. Vincent and the Grenadines Chamber of Industry and Commerce have seen the need to form stronger alliances in an effort to enhance the process. Some firms and organizations have sought to enhance their operations by developing their own strategic responses to the many challenges highlighted above. The St. Vincent Marketing Corporation, for example, has sought to enhance the export capability of the locally produced ground provisions by adding value via vacuum packing prior to exportation of the ground provision. However, it is quite evident that there is need for a national strategy to embrace this and other initiatives.

#### **Obstacles and Constraints:**

The section entitled "Relevant Issues" also addressed some of the major obstacles and constraints to competitiveness. Suffice it to say, however, that the limitations are compounded by the absence of adequately trained and qualified personnel to man many of the institutions that are required to enhance the quality standards that are demanded in the ever increasing globalised market place.

#### **Success of Strategic Actions Taken :**

As indicated above, there have not been concerted efforts to develop national strategic actions in St. Vincent and the Grenadines. Individual firms and associations have sought to develop strategic responses aimed at maintaining or expanding their presence on the markets.

However, there is evidence that the efforts will continue to be directed at diversification within agriculture rather than away from agriculture. This must continue to be a priority even as efforts are made at strengthening and expanding the service sector.

### Lessons Learned:

The small, vulnerable states of the Eastern Caribbean can learn useful lessons from observing and modeling the successes created and sustained by other nations. For example, the government TECHNONET Asia was established in the early 1970s with the mandate to focus on the dissemination of industrial information among the SMEs in Asia and the Pacific. In addition, the organisation was required to provide individual extension services, technical transfer sharing and to develop indigenous entrepreneurs and enterprises (United Nations, 1996). This was not much different to the Manager of Technology (MOT) established by the Mexican Food Industry with a specific mandate to support the SMEs in their food sector by disseminating scientific and empirical knowledge, developing technical and economical feasibility profiles, providing equipment design and manufacture, assisting with guidance on intellectual property, staff training, equipment acquisition, circulating technical information external to the organisation, assisting with basic and detailed engineering, ensuring that the firms were familiar with domestic and international regulations, and providing guidance in contractual dealings (Rodriguez-Diaz, 2000). Similar recommendations were also advanced in the interest of the SMEs in Western Australia (Buxey, 2000; and Rohman, 2001), the United Kingdom (Smallbone et al, 1996), and Brazil and Latin America (Guthbert, 2000).

There is a universal challenge for SMEs to constantly focus on being internationally competitive as they strive to enhance their efficiencies (Agrarwal, 1996; Downes, 2000; Connor, 2003; Garvin, 1993; Gregory, 2003; Husted, 1996; Lau and Pun, 2000; Najmi, 2001; and Springer, 2003).

Based on the literature referred to above it is relatively easy to observe the fact that the SMEs in the Caribbean are not unique in relation to the practices and procedures required to enhance their efficiencies and effectiveness. The references also provide useful insights into management practices and the government and non-government support the OECS SMEs require if they are to sustain their operations in a market place that is constantly challenged by trade liberalization and its twin globalisation.

### The Way Forward: Approaches in Meeting the Challenge

To be sure, trade liberalization in St. Vincent and the Grenadines must be supported by other economic and social reforms, including in the vital area of education, in order to provide a more fertile environment for entrepreneurship and the private sector, outward-oriented investment, and economic growth. In the area of fiscal policy, economic policy reforms might naturally focus on increasing the efficiency of revenue collections under trade liberalization. This might entail introducing new instruments of taxation such as income or value-added taxes, which are frequently mentioned but which can be politically difficult to enact and administer successfully.

As very small economies that would be expected to gain from economic integration with any trading bloc of sufficient size and export capacity to meet their import demands fully, St. Vincent and the Grenadines would also have considerable interest in regional negotiations to liberalize trade under FTAA, the planned free trade area for the entire Western Hemisphere. FTAA would not only provide ECS countries with

duty-free access to large markets in the hemisphere but also, per force, overcome incentives arising from NAFTA and MERCOSUR for trade or investment diversion potentially detrimental to Caribbean countries, by essentially making all sub-regional and bilateral preference schemes within the Western Hemisphere immaterial to competitiveness. Broadly speaking, the specific interests of the Caribbean states in FTAA negotiations to liberalize trade in goods and services would not diverge significantly from its interests in comprehensive WTO negotiations to liberalize trade in goods and services.

Whether St. Vincent and the Grenadines would derive substantial economic gains from pursuing greater concerted liberalization of trade in goods and services solely within the Caribbean region under, say, an invigorated and effective ACS-CARICOM framework is highly problematical, against the backdrop of globalization and the fundamental competitiveness, rather than complementarity, of the economies in the greater Caribbean region. From a political economy perspective, a particular downside risk is that ACS-CARICOM negotiations to liberalize regional trade would result in *de facto* import-substitution, undertaken on a regional basis rather than a national basis.

#### Conclusion:

Notwithstanding the variability of its income owing to its small size and vulnerability to fluctuations in external economic and environmental conditions, St. Vincent and the Grenadines and by extension the ECS enjoy a relative abundance of tropical and marine resources that, with the populations of these islands, might sustain more vibrant economies, not only in agriculture and light manufacturing but also tourism and professional services. Preferences for ECS exports, extended principally by the European, are steadily being eroded by the combined juggernaut of advancing trade liberalization worldwide and increasing international competitiveness of developing countries in other regions, most prominently, emerging-market countries in Latin America and Asia that have pursued significant unilateral trade liberalization.

In addition to ensuring a social and institutional infrastructure conducive to higher economic growth, led by greater opportunities for advanced education, manpower training, and private sector initiative and enterprise, ECS countries should look particularly at the trade preferences they now enjoy outside of the region. In the context of ongoing WTO and FTAA negotiations to liberalize international and regional trade on a reciprocal basis, continued ECS pursuit of special and differential treatment may well threaten the economic future, foreclosing opportunities for attracting more outward-oriented foreign investment, and for achieving greater international competitiveness, economies of scale, and economic diversification. The service sector is a prime example. Notwithstanding recent criticism by OECD governments of offshore financial services and their regulation in several Eastern and other Caribbean countries that have attracted substantial investment funds and “black money” seeking shelter from taxes abroad, the outlook for tourism and trade in other services, including financial services, is reasonably positive for the Eastern Caribbean.

ECS participation in multilateral or regional negotiations to liberalize trade on a broad and reciprocal basis, under WTO or FTAA, should be expected to result in considerable economic gains for the Eastern Caribbean countries, provided that they pool their scarce negotiating expertise and other resources through ACS and CARICOM, and take full advantage of other possible sources of regional and

international assistance. In the event that WTO and FTAA negotiations fail to make substantial headway in the coming years, St. Vincent and the Grenadines might look more seriously to following the example of emerging market countries during the last decade. That is, to the extent domestic political opposition to trade reform can be overcome, they might look more seriously to pursuing unilateral trade liberalization or, possibly, a form of "open regionalism" under the auspices of the OECS.

#### References and General Bibliography:

- Agrarwal, Chakradhari (1996)  
Enhancing Global Competitiveness of Small and Medium Enterprises  
International Conference on Development Strategies for SMEs  
Changzhou, China
- Armstrong, H., R.J. de Kervenoael, X. Li, and R. Read. (1998)  
A comparison of the economic performance of different microstates, and between microstates and larger countries. World Development, Vol. 26(4): pp. 639-656.
- Association of Caribbean States(ACS), (2000)  
Information Brochure (<http://www.acs-aec.org/brochureweb.htm>).
- Atkins, J.P., S. Mazzi, and C.D. Easter (2000)  
Commonwealth vulnerability index for developing countries: The position of small states. Economic Paper No. 40, Commonwealth Secretariat, London.
- Bhagwati, J., and A. Panagariya (1996)  
Preferential trading areas and multilateralism strangers, friends, or foes? In The economics of preferential trade agreements, eds., J. Bhagwati and A. Panagariya. Washington, D.C.: The AEI Press.
- Blake, Byron (2002)  
Global Issues and Their Impact on the New Caribbean  
Conference Room, Ministry of Foreign Affairs, Kingstown, St. Vincent.
- Boxill, Ian and Wendell Samuel (1997)  
Disadvantaged Countries, Sectors and Regions in the Caribbean Community  
Caribbean Development Export Development Agency
- Briguglio, L. (1995)  
Small island developing states and their economic vulnerabilities. World Development, Vol. 23(9): pp. 1615-1632.
- Buxey, Geoff (2000)  
Strategies in an era of global competition  
International Journal of Operations and Production Management, Vol. 20, No. 9: pp. 997-1016
- Caribbean Development Bank (1999)  
*Social and economic indicators 1997*. Economics and Programming Department, Caribbean Development Bank, St Michael, Barbados.

- Caribbean Export Development Agency (1997)  
Country reports on import regimes. St. Michael, Barbados.
- Commonwealth Secretariat (1999)  
Small states: a composite vulnerability index.  
Unpublished paper presented at the World Bank-Commonwealth Secretariat Conference on Small States. St. Lucia.
- Connor, Gary (2003)  
Briefing from Six Sigma  
Manufacturing Engineering, Dearbon, Vol. 130, No. 2, pp. 53-59
- DeRosa, D.A. (1998)  
Regional integration arrangements: static economic theory, quantitative findings, and policy guidelines. Policy Research Working Paper 2007. The World Bank. Washington, D.C.
- Downes, Andrew (2000)  
Long Term Planning : Institutional Action and Restructuring in the Caribbean, Easter Caribbean and Latin American Action, Unpublished Paper.
- Garvin, David A. (1993)  
Building a Learning Organization  
Harvard Business Review, Boston, Massachusetts, Harvard Business School Press July/August, Vol. 71, No. 4, pp. 78-92
- Gregory, Annie (2003)  
Take Five on Six Sigma  
Works Management, Horton Kirby, Vol. 56, No. 1, pp. 32-34
- Gutberlet, Jutta (2000)  
Sustainability: A New Paradigm for International Production  
International Journal of Sustainability in Higher Education, Vol. 1, No. 3
- Husted, Bryan W. (1996)  
Mexican Small Business Negotiations with US Companies: Challenges and Opportunities  
International Small Business Journal, Cheshire, U.K., Vol. 14, No. 4, pp. 45-54
- Lau, H.C.W.; and Pun, K.F. (2000)  
Assimilation of a Strategic Information System to Gain Competitiveness: A Neutral Format Approach.  
Logistics Information Management, Vol. 13, No. 5
- Najmi, Manoochehr; and Kehoe, Dennis (2001)  
The Role of Performance Measurement Systems in Promoting Quality Development Beyond ISO 9000  
International Journal of Operations & Production Management, Vol. 21, No. 2, pp. 159-172
- Organization of American States (OAS), (1996)

Special and differential treatment in international trade. OAS Trade Unit. Washington, D.C.

- Porter, Michael E. (1988)  
Generic Competition Strategies  
The Strategy Process: Concepts, Contexts, and Cases, James Quinn, Henry Mintzberg, and Robert James (Editors), London, Prentice-Hall Inc., pp.65-69
- Rahman, Shams-ur (2001)  
A Comparative Study of TQM Practice and Organisational Performance of SMEs With and Without ISO 9000 Certification  
International Journal of Quality & Reliability Management, Vol. 18, No. 1, p. 35
- Rodriguez-Diaz, A.J. (2000)  
Globalisation and Technology Management in the Mexican Food Industry  
Industrial Management 7 Data Systems, Vol. 100, No. 9
- Smallbone, David; Cumbers, Andrew; and Leigh, Roger (1996)  
The Single Market Process and SMEs in the UK Food Processing Sector  
International Small Business Journal, Cheshire, U.K., Vol. 14, No. 4, pp. 55-71
- Springer, Basil (2003)  
New Financial Paradigm  
Barbados Advocate: Bridgetown, Barbados, June 2, 2003
- Srinivasan, T.N. (1986)  
The costs and benefits of being a small, remote, island, landlocked or ministate economy. World Bank Research Observer , Vol. 1(2): pp. 205-218.
- United Nations (1996)  
The ISO 9000 Quality Management Systems  
International Trade Centre UNCTAD/WTO, United Nations
- Wang, Z.K., and L.A. Winters, (1998)  
Africa's role in multilateral trade negotiation (Appendix: The simple analytics of preferences). In Trade reform and regional integration in Africa, eds., Z. Iqbal and M.S. Khan. International Monetary Fund. Washington, D.C.
- Watson, Kathryn J. (2001)  
A Model of Export Information Acquisition in Small and Medium Sized Enterprises: An empirical study of export information acquisition, perceived export constraints and export performance in the UK textile and wearing apparel sectors  
Unpublished Doctor of Philosophy Thesis, Bradford University School of Management
- Winters, L.A. (1999)  
Trade policy as development policy: Building on fifty years' experience. Paper prepared for the UNCTAD X High-Level Round Table. Bangkok. February 2000.

World Bank, (1996)

Prospects for service exports from the English-speaking Caribbean. Report  
No. 15301 CRG, The World Bank, Washington, D.C.